

April 11, 2002

TO: Senator Sid Snyder, Chair
Senator Dan McDonald
Representative Jack Cairnes
Representative Jeff Gombosky
Marty Brown, OFM, Director
Will Rice, DOR, Acting Director

FROM: Chang Mook Sohn, Executive Director
Office of the Forecast Council

SUBJECT: April 10, 2002 REVENUE COLLECTION REPORT

The State's revenue situation improved in the latest month. General Fund-State collections were \$22.9 million higher than expected in the March 11-April 10 period. This more than offsets last month's shortfall. Collections are now \$17.3 million higher than expected for the two months since the February forecast. Revenue Act (retail sales, business and occupation, use and public utility taxes), the real estate excise tax and property tax (state levy) were the major contributors to the higher than expected revenue for the month. Most Economic data nationally indicate that the U.S. economic rebound has begun and may be stronger than expected. It is too early to tell whether this month's higher than expected revenue is simply an offset to last month's shortfall or an indication that the worst is over for the state's economy as well.

Revenue Act receipts this month (primarily reflecting February 2002 business activity) were up 1.5 percent (adjusted for special factors) from a year ago. This is the first year-over-year increase in three months. We were expecting a 2.3 percent decline. Although for the current month revenue growth was both positive and higher than expected, revenue growth still remains relatively weak. February's 1.5 percent increase was below the 2.9 increase in retail sales nationally and combined with January's 4.5 percent decline, it is still 1.8 percent below the year-ago level for the last two months combined. Collections are 3.2 percent below the year-ago level over the last six months. Declines of this magnitude and duration have not been seen since the early 1980's. Whether the worst is over depends on the economy and consumer and business response to changing economic conditions. The national economy is showing signs of significant improvement. Manufacturing output has improved, retail sales remain healthy and the outlook for real gross domestic product in the first quarter is much higher than assumed in the February forecast. More importantly, the U.S. economy added 58,000 jobs in February. This was the first increase in employment since July. Washington's employment situation has improved as well. Preliminary seasonally adjusted data show jobs increased in January 2002. This was the first monthly increase in a year. Although employment declined again in February, February drop was less than January's gain and overall employment is pretty much in line with the February forecast.

April 11, 2001

Preliminary data on taxes paid during the March 11-April 10 collection period indicate moderate growth in the retail trade sector, largely offset by declines in non-retailing sectors. Most retail trade sectors reported positive year-over-year increase in tax payments, with the building materials/hardware sector reporting the largest increase (10.7 percent). General merchandise stores were up nearly 8.0 percent and auto/gasoline retailers reported a 5.5 increase in tax payments. The only retail sector reporting a year-over-year decline was the furniture/household equipment sector. All major non-retailing sectors reported year-over-year declines in tax payments for the month. The construction and wholesale trade sectors reported the largest declines, -8.1 percent for construction and 8.0 percent for wholesale trade. The manufacturing sector reported a decline of 7.7 percent and the service sector reported a 1.0 percent drop.

Other General Fund taxes collected by the Department of Revenue were \$1.9 million higher than the estimate for the month. Stronger than expected real estate excise tax and property tax receipts more than offset less than expected estate, cigarette and other tax collections for the month. Cumulatively, non-revenue act receipts are now \$9.7 million higher than expected. This is primarily due to higher than expected property tax, real estate excise tax and "other" taxes (primarily unclaimed property transfers and brokered natural gas tax).

Real estate excise activity was stronger than expected in February (February closings reflecting real estate tax payments to the state in March) despite the weak economy. Lower mortgage rates have kept homes affordable. Statewide, taxable real estate excise activity increased 14.4 percent from the year-ago level. Last month activity was up 5.0 percent. The number of transactions increased 14.5 percent while the average price per transaction declined 0.1 percent. The strength this month was due to considerable improvement in King County. Taxable real estate activity increased 33.3 percent in King County. The increase in King County was the highest in four years. Excluding King County, taxable activity was up 2.9 percent for the month and 6.7 percent for the first two months of calendar 2002 for the rest of the state.

Department of Licensing collections were \$131,000 above the forecast both for the month and cumulatively since the February forecast.

The attached Table 1 provides a comparison of collections with the forecast for the March 11 - April 10, 2002 collection period and cumulatively since the last forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

CMS:cg

Attachments

TABLE 1
Revenue Collection Report
April 10, 2002 Collections Compared to the February 2002 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
March 11 - April 10, 2002				
Department of Revenue-Total	\$604,660	\$627,436	\$22,776	3.8%
Revenue Act** (1)	546,777	567,658	20,881	3.8%
Non-Revenue Act(2)	57,883	59,778	1,896	3.3%
Liquor Sales/Liter	6,413	6,555	143	2.2%
Cigarette	4,510	3,714	(795)	-17.6%
Property (State School Levy)	13,712	16,753	3,042	22.2%
Estate	7,664	6,701	(963)	-12.6%
Real Estate Excise	22,724	25,128	2,405	10.6%
Timber (state share)	0	0	0	NA
Other	2,862	927	(1,935)	-67.6%
Department of Licensing (2)	640	771	131	20.6%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$605,300	\$628,207	\$22,908	3.8%
Cumulative Variance Since the February 2002 Forecast (February 11 - April 10, 2002)				
Department of Revenue-Total	\$1,236,533	1,253,750	17,217	1.4%
Revenue Act** (3)	1,116,888	1,124,369	7,482	0.7%
Non-Revenue Act(4)	119,645	129,381	9,735	8.1%
Liquor Sales/Liter	12,624	13,076	451	3.6%
Cigarette	10,306	9,577	(729)	-7.1%
Property (State School Levy)	18,201	22,065	3,864	21.2%
Estate	19,213	20,336	1,122	5.8%
Real Estate Excise	47,276	50,338	3,063	6.5%
Timber (state share)	1,937	2,173	237	NA
Other	10,089	11,817	1,728	17.1%
Department of Licensing (4)	1,166	1,297	130	11.2%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,237,699	\$1,255,047	\$17,348	1.4%

1 Collections March 11 - April 10, 2002. Collections primarily reflect February 2002 activity of monthly taxpayers.

2 March 1-31, 2002 collections.

3 Cumulative collections, estimates and variance since the February 2002 forecast; (February 11-April 10, 2002) and revisions to history.

4 Cumulative collections, estimates and variance since the February 200 forecast;(February and March 2002) and revisions to history.)

* Based on the February economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
March 10, 2002 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
February 11 - March 10, 2002				
Department of Revenue-Total	\$626,314	\$626,314	(\$0)	-0.0%
Revenue Act (1)	556,711	556,711	0	0.0%
Non-Revenue Act(2)	69,602	69,602	0	0.0%
Liquor Sales/Liter	6,520	6,520	0	0.0%
Cigarette	5,862	5,862	0	0.0%
Property (State School Levy)-net	5,311	5,311	0	0.0%
Property tax collections	5,311	5,311	0	0.0%
transfer to the Student Achievement Acct.	0	0	0	ERR
Estate	13,635	13,635	(0)	-0.0%
Real Estate Excise	25,210	25,210	0	0.0%
Timber (state share)	2,173	2,173	0	NA
Other	10,890	10,890	0	0.0%
Department of Licensing (2)	533	525	(8)	-1.4%
Lottery (2)	0	0	0	NA
Total General Fund-State***	\$626,846	\$626,839	(\$7)	-0.0%

Cumulative Receipts: February 11 - March 10, 2002 & Revisions to History

Department of Revenue-Total	626,314	\$626,314	(\$0)	-0.0%
Revenue Act (3)	556,711	556,711	0	0.0%
Non-Revenue Act(4)	69,602	69,602	0	0.0%
Liquor Sales/Liter	6,520	6,520	0	0.0%
Cigarette	5,862	5,862	0	0.0%
Property (State School Levy)-net after transfer	5,311	5,311	0	0.0%
Property tax collections	5,311	5,311	0	0.0%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	13,635	13,635	(0)	-0.0%
Real Estate Excise	25,210	25,210	0	0.0%
Timber (state share)	2,173	2,173	0	NA
Other	10,890	10,890	0	0.0%
Department of Licensing (4)	533	525	(8)	-1.4%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$626,846	\$626,839	(\$7)	-0.0%

P-Preliminary. Reported in the March 10, 2002 collection report.

R Revised data.

1 Collections February 11 - March 10, 2002. Collections primarily reflect January 2002 business activity of monthly taxpayers.

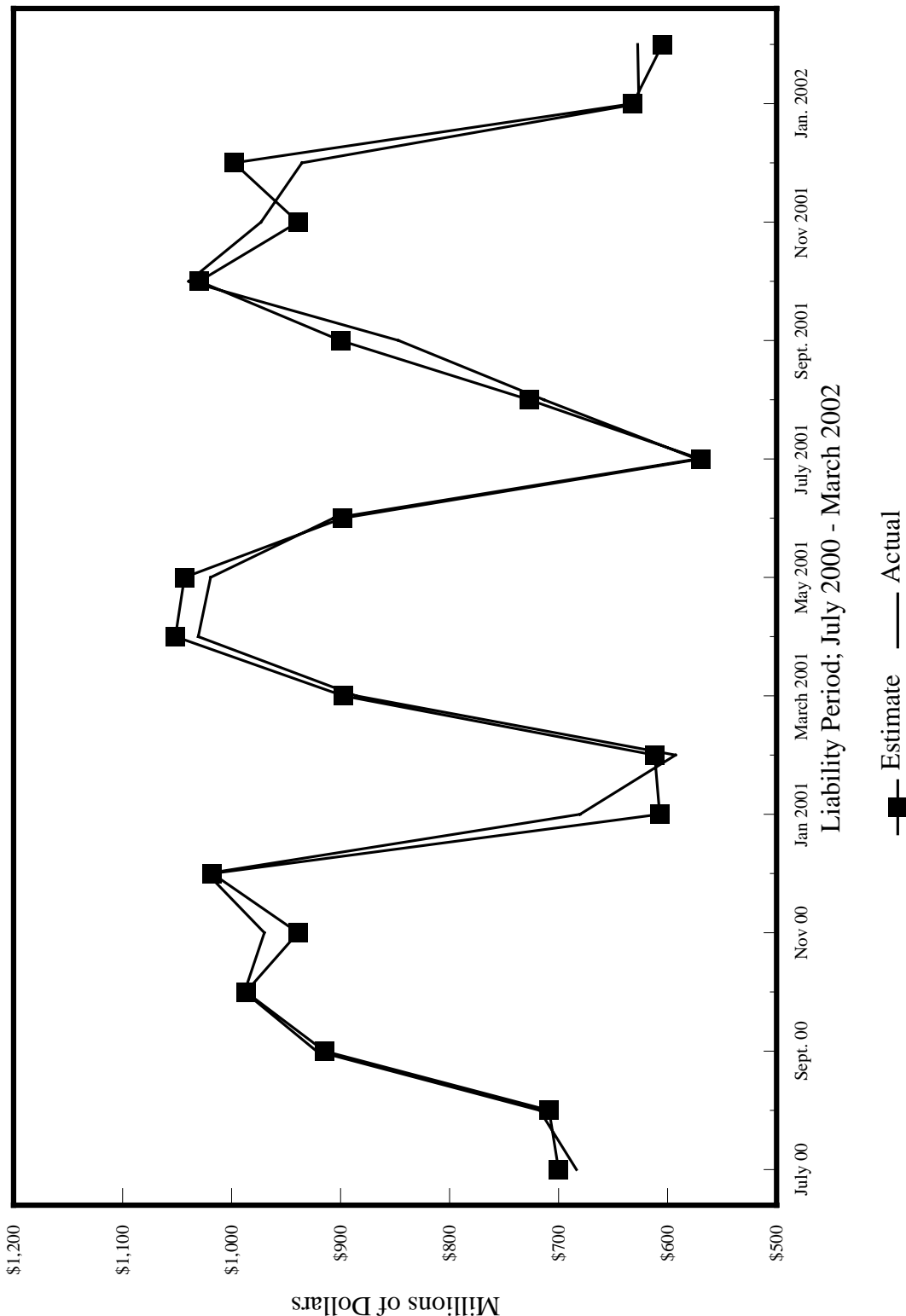
2 February 1-28, 2002 collections.

3 Cumulative variance for since the February 2002 forecast: February 11 - March 10,2002 & revisions to history.

4 Cumulative variance: since the February 2002 forecast (February 2002) & revisions to history.

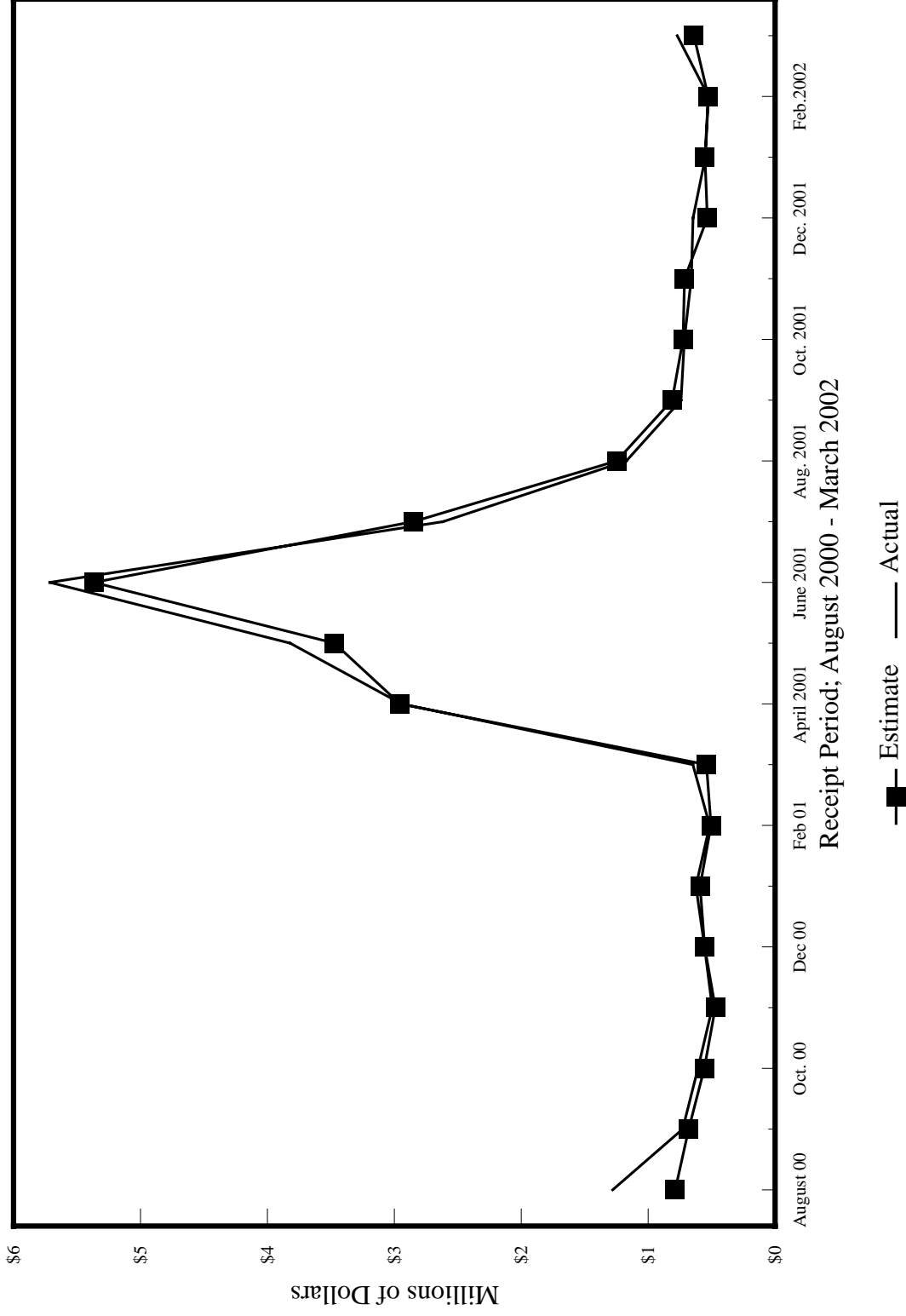
* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Department of Revenue: General Fund-State, Actual vs. Estimate July 2000 to February 2002



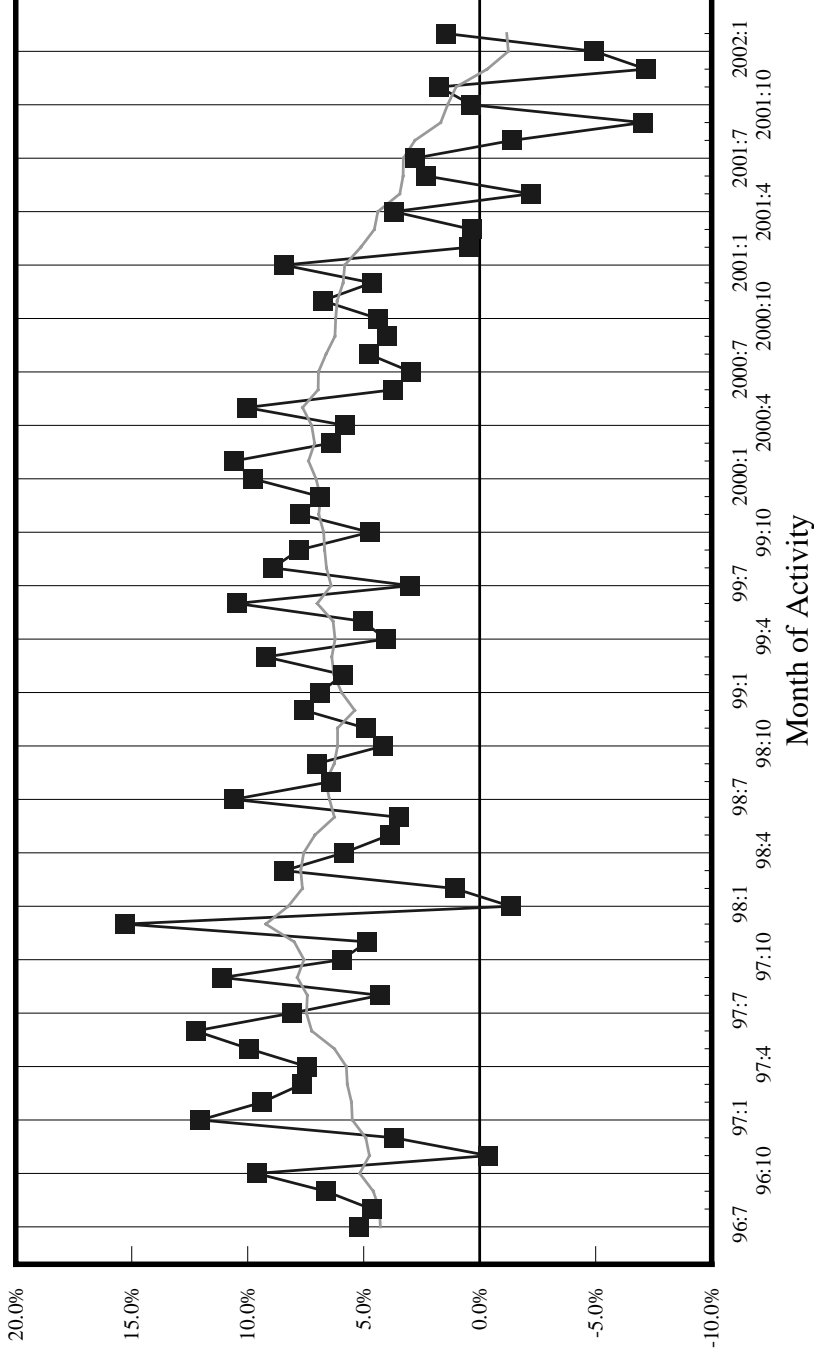
Department of Licensing General Fund-State, Actual vs. Estimate

August 2000 to March 2002



Revenue Act Net Collections*

Year-over-Year Percent Change



—■— %CH from year-ago month

— % change: 12 month moving average

*- adjusted for special factors, primarily large assessment payments or credits/refunds.